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USAWC MILITARY STUDIES PROGRAM PAPER

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AN ASIA-PACIFIC ECONOMIC BEAR HUG

AN INDIVIDUAL STUDY PROJECT

by

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ABSTRACT

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The Soviet Union's presence in the Asia-Pacific region has historically been reflected in its military capability. Her Pacific buildup now includes the largest of the U.S.S.R.'s four fleets and a steady growth of air and naval forces at Cam Ranh Bay. This study ~~will~~ show that the Soviets are now enhancing their regional presence through another means of power in addition to their military. The use of economics as an alternative to gain a non-military foothold in the region is now a viable link to the Soviet's overall strategy. This study ~~will~~ explore why the Soviet's are using economic power and then trace their attempts to gain an economic foothold in the region.

Keywords: Northeast Asia; Southeast Asia; International politics; Economic policies; Balance of power; New Zealand; Australia; Yurikati. (end)

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"WE ARE PREPARED TO EXPAND TIES WITH AUSTRALIA, NEW ZEALAND...AND THE YOUNGEST INDEPENDENT PARTICIPANTS IN THE REGION'S POLITICAL LIFE - PAPUA NEW GUINEA, WESTERN SAMOA, THE KINGDOM OF TONGA, FIJI, THE REPUBLIC OF KIRIBATI, THE REPUBLIC OF NAURU, TUVALU, AND THE REPUBLIC OF VANUATU WE HAVE DIPLOMATIC RELATIONS THE SOVIET STATE CALLS ON ALL ASIAN AND PACIFIC NATIONS TO COOPERATE FOR THE SAKE OF PEACE AND SECURITY. EVERYONE WHO IS STRIVING FOR THESE GOALS, WHO HOPES FOR A BETTER FUTURE FOR THEIR PEOPLES, WILL FIND US TO BE BENEVOLENT INTERLOCUTORS AND HONEST PARTNERS." - GORBACHEV 28 JULY 1986



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AN ASIA-PACIFIC ECONOMIC BEAR HUG

CHAPTER I

INTRODUCTION

The Soviet Union has recently expanded its influence into the Asia-Pacific region. This expansion, although not new, has significantly reaffirmed their intention to project their regional influence through the use of the economic element of power. What this paper will address is the wide range of Soviet initiatives in the region and how these initiatives serve the strategic ends of the Soviets. What appears to be a peaceful outreach of Soviet economic arms of friendship could in fact be the prelude to a Soviet "Bear" hug. A hug that could squeeze the United States out of the region and wrap our regional friends and allies into a Soviet Asia-Pacific.

BACKGROUND

The ability of a nation to project its national power is a key component to achieve that nation's strategic objectives. In his statement of America's National Security Strategy, President Reagan outlined our country's elements of power and how their employment would achieve "the full range of (our) national

security interests."¹ These elements of power; economic, military, and political, must be coordinated and integrated to ensure a balance of effort if they are to be a means to an end.

U.S. security interest (ends), are defined as:

1. The survival of the United States as a free and independent nation...
- . A healthy and growing U.S. economy...
3. A stable and secure world free of major threats to U.S. interests.
4. The growth of human freedom, democratic institutions, and free market economies throughout the world, linked by a fair and open international trading system.
5. Healthy and vigorous alliance relationships.²

The primary threat to these interests continues to be the Soviet Union. Historically the U.S. considered these threats primarily in the realm of Soviet military power. "The most significant threat to U.S. Security interests remains the global challenge posed by the Soviet Union. ...(Its) military power and active diplomacy continue forcefully to challenge our vital interests in many parts of the world."³

CHAPTER II

SOVIET STRATEGIC OBJECTIVES

The most recent challenge posed by the Soviets is in the Asia-Pacific region. The Soviets are attempting to employ an Asian-Pacific "Bear" hug through the use of this challenge and the use of economics as an element of power. This hug strategy is meant to squeeze U.S. influence out of the area and extend Soviet "arms" to enhance their influence in the area. To fully understand their Asia-Pacific strategy we need to review their overall strategy.

The Soviet strategy, in relation to the U.S. strategy, generally has the same objectives and goals only in Soviet terms. Their National Security priorities are:

1. To strengthen the Soviet political system and preserve rule by the Communist Party of the Soviet Union.
2. To extend and enhance Soviet influence worldwide.
3. To defend the Soviet homeland and state against potential aggression.
4. To maintain dominance over the land and sea areas adjacent to Soviet borders.⁴

The second priority, to extend and enhance Soviet influence worldwide, is the newest systemic trend that the Soviets are using in the Asia-Pacific region. To achieve this end, the Soviets are increasing their influence through economic means.

What is alarming, and will be highlighted in this study, is that the Soviet economic element of power is not just being used on some poor, underdeveloped island nation or just with regional allies such as the Socialist Republic of Vietnam (SRV) and the Democratic People's Republic of Korea (DPRK). The Soviets now challenge the U.S. in the Asia-Pacific region with economic influence involving countries like Australia, New Zealand, Japan, Papua New Guinea, and the Association of Southeast Asian Nations (ASEAN-Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand).

It is no accident that the Soviets are using economics as an instrument of national power in the Asia-Pacific region. In July 1986 at the 27th Party Congress, General Secretary Gorbachev "affirmed that changes in the contemporary world were so profound as to require 'new approaches, methods, and forms of relations between different social systems, states, and regions'".⁵

The objectives of Gorbachev's Soviet foreign policy include: "continuing to secure access to Western technology and financial credits and undermining Western military programs".⁶ Additionally, Gorbachev emphasized that the Soviet Union must increase its priority in East Asia for three reasons:

First; 'as regional economic development accelerated, Moscow noted the growing importance of the region in the world's economy. Second; the Soviets realized that their own economic development, particularly in Siberia and the Far East, required far greater trade with Asian nations. Third; the Soviets were concerned with the strategic importance of the region, especially as the GNPs of China, Japan, and South Korea increased.'⁷

This growing interest of the Soviets in the Asia-Pacific region can also be traced to a renewed recognition that Asian security is indeed important if the Soviets are to maintain dominance over the area adjacent to their eastern borders. Two-thirds of the Soviet Union land mass is in Asia and they have the longest Pacific coastline of any nation in the Pacific basin.⁸ It is in their interest, therefore, to establish a better relationship with the region and decrease U.S. influence. We will look at Soviet economic policy implications in the region and whether that policy is viable as an element of power to achieve Soviet foreign policy objectives.

As mentioned earlier, the elements of power must be coordinated and integrated to ensure a balance of effort in order to serve as a means to an end. Ever since the end of World War II the Soviets have had the element of military power in the Asia-Pacific region. This has steadily grown for over four decades and now includes the Soviet access to Cam Ranh Bay and Da Nang in Vietnam. However, this military growth has essentially been without the complimentary support of a sound economic policy in the region. The Soviets are actively attempting to correct this lack of economic development.

It is this development that will provide the Soviets with an effective way to counter U.S. regional relations. These relations have long been rooted in the region and, fortunately for the U.S., have been balanced between the economic and military elements of power. The Soviets clearly see their only opportunity to gain an inroad into the region is to wedge

themselves between the U.S. and its friends and allies. Ultimately the wedge could evolve into pushing the U.S. completely out of the region. As the Soviets increase their political and economic presence in the region it will give them more opportunities to voice their regional security and military affairs concerns. As they improve their contacts with Asia-Pacific nations they also improve their position to voice their regional concerns. Concerns that do not include U.S. presence. In order to accomplish this the Soviets must review the status of their regional "friendships".⁹

CHAPTER III

REGIONAL ALLIES

The Soviets have no real "friends" in the Asia-Pacific region. Their most significant economic, military, and political relations are with the Mongolian People's Republic (MPR), the DPRK, and SRV. The MPR and SRV are two of the Soviet's three most expensive dependents, Cuba being the third.

The MPR, which cost the Soviets \$US3 billion in annual economic aid, continues to assert its desire for independence from the Soviets. In January 1987, the U.S. established diplomatic relations with the MPR. This was done with the blessing of the Soviets primarily because MPR's "... (acceptance) by the U.S. would be a more convincing advocate for Soviet initiatives in Asia."¹⁰ The Soviet view was that of her three regional "friends" only the MPR had been accepted by the U.S. This significant step, which included some U.S. economic ventures, could be viewed by regional nations as a signal that the U.S. was establishing diplomatic and economic relations with a Soviet "friend" and therefore the region should follow suit. For the time being, this "economic dependent" was serving the Soviet interests.

The DPRK has not responded to Soviet initiatives that recently included participation in the 1988 Olympics in Seoul,

and in general, continues to be a major threat to stability on the Korean peninsula. Both of these actions do not go unnoticed by the Asia-Pacific region. Additionally, the economic status of the DPRK is not very strong. As recent as 1987, one hundred forty Western European banks were defaulted by the DPRK for over \$US770 million.¹¹ However, the Soviets continue their economic support of the DPRK. Soviet-DPRK trade continues to improve with Soviet assistance being responsible for building and enlarging numerous projects. This signal of economic cooperation can be viewed as an attempt to revitalize the DPRK and hopefully open more trade with the Republic of Korea (ROK) and other nations of Asia.¹²

And for the Soviets to call SRV a friend costs them \$US2 billion annually in economic aid, not counting military and technical assistance. Added to that is a \$US6.5 billion debt the SRV owes the Soviets. For all that cost the Soviets get the use of Da Nang and Cam Ranh Bay. However, this use of economic power significantly benefits the Soviet Pacific Fleet as it allows expansion for the projection of naval and air power throughout the region. Just as important, the Soviet presence in the SRV has become a thorn in the side of the U.S. in view of the dominant influence we once held in that area of Southeast Asia as the only playing superpower. The recent Gorbachev offerings give the Soviet presence in SRV political power as well: "Pull out of the Philippines and the Soviets will pull out of SRV".

The occupation of Kampuchea by SRV continues to be a problem for the Soviets. This military incursion is of great

concern for several ASEAN states, in particular Thailand whose forces have had several border clashes with the SRV. This does not present a very positive image for the Soviet-supported SRV and the Soviets have urged the SRV towards a political settlement.

These two nations, DPRK and SRV, are the closest allies that the Soviets have in the region with any economic capability. It is not the best of economic relations and the Soviets know it. They realize their requirements must be expanded into the more prosperous areas of the regions, an expansion that they now seek in a most imaginative way.

CHAPTER IV

ASIA-PACIFIC OPPORTUNITY

The Soviets now have a target of opportunity. As Gorbachev continues to articulate his "perestroika" (restructuring) from the domestic level, the message "was not only for its effect overseas (but was also) aimed at a regional domestic audience, indicating a wish to bring the Soviet Far East more effectively into the Soviet economy." ¹³ This shows that the Soviets need the Asia-Pacific region for investment and trade. The region faces a dilemma as to the impact of Soviet economic excursions throughout the region. And what are Soviet motives?

The Asia-Pacific region has the most dynamic economic growth in the world. U.S. foreign trade with the region exceeds our European Economic Community trade and Asia has the largest share of all our world trading regions. This Asia-Pacific trade is valued at over \$US211 billion and accounts for 36 per cent of all U.S. foreign trade. The dynamics of the region's economic growth have not gone unnoticed by the Soviets, and it is a part of this growth that they want to share in.

First of all, the Soviets are clearly economic non-players throughout the region. They import a sizable amount of goods; however, they do not do well in the production of quality products for export, and essentially have no significant trade

impact in the region. There is a significant change underway that indicates Soviet recognition of the importance of being an Asia-Pacific economic partner. The signals are quite clear ranging from Gorbachev's "perestroika" which involves as much reform at home as it does abroad, to the Soviet's long reach for economic friends from Japan to New Zealand, and from the South Pacific Islands to Indonesia.

CHAPTER V

REGIONAL ECONOMIC SEARCH

JAPAN

The Soviets have had economic relations with Japan since the 1950s. At its peak in the late 1970s, Japan was the Soviet's second largest trading partner, primarily in support of Soviet development in Siberia. Following the Soviet invasion of Afghanistan in 1979 and Soviet actions in Poland in 1981, Japan cancelled a \$US1.4 billion credit to the Soviets. The Gorbachev initiatives are attempting to overcome this because "now more than ever there exists the need and the opportunity for the Soviets to cooperate economically with Tokyo...(as) the world's most dynamic economic power...a vast marketplace for Soviet resources".¹⁴

The Soviets cannot afford to be left out economically and still be able to extend any influence throughout the region, with Japan holding not only the world's economic power but also as a major influence in the economic growth of the Asia-Pacific region. If the Soviet Union can maintain a delicate balance between its "overtures to socialist as well as non-socialist states of east Asia" it will be able to convince the region that it can be a friend.¹⁵

REPUBLIC OF KOREA

Soviet and Republic of Korea (ROK) relations are difficult at best to assess given the Soviet-DPRK economic, military, and political relationship. The "global perceptions of the ROK as an independent actor in the international community...(with a) favorable reputation...(for) export goods or work abroad..." has caused the Soviets to respond with limited trade contacts. Most of the Soviet economic contact is through Eastern European and ROK trading with well over \$US100 million ending up with the Soviets.¹⁶

This is not a significant level of trade and does not necessarily support a major trend towards improving relations. It does provide a positive signal that the Soviets are interested in furthering relations through economic means in the region. To further amplify the Soviet desire to improve its Asia-Pacific relations, the 1988 Olympics saw the Soviets not only participate but also strongly encourage other communist nations to do the same. With only Cuba and the DPRK not in attendance the Soviets possibly have made a positive first step to improving relations with the ROK considering "South Korea's search for foreign markets and Soviet desires for increased foreign investment..."¹⁷

CHINA

China and the Soviets have had numerous political and military confrontations over a long time period. The Soviet Union is currently projecting an "optimism that 'what is past is past'...(this) may, however, underrate the relevance of history to the Chinese, and the lack of complementarity in the two economies."¹⁸ What the Soviets are finally realizing is that China is well ahead of them in blending into the emerging economic dynamics throughout the Asia-Pacific region.

China has increased its involvement in world trade. "China's foreign trade and economic links are likely to be relatively heavily concentrated in Asia and the Pacific...extending and strengthening the network of economic ties...among the Asia-Pacific nations".¹⁹ There are also a number of trade-economic oriented organizations in the region of which the Soviets are not members but China is.

When the Pacific Economic Cooperation Council (PECC) was formed in September 1980, the Soviet Union believed it was intended as the forerunner of a military alliance like Nato.(sic) The admission of China as well as Taiwan, into the grouping in November 1986 appears to have prompted the Soviets to change their minds. They now seem more eager to join PECC...The Soviet Union may also believe PECC's importance will grow at the same exponential rate as many of its members' economies.²⁰

China's preeminence in the region and its growing association with regional nations add to the frustrations that the Soviets endure as they attempt to become an Asia-Pacific

partner, if not the future dominant force. In fact the traditional U.S.-Soviet "China card" has not had to be played by the U.S. as China's economic and diplomatic progress was basically an internal undertaking. The evolution of China as a regional cooperative partner was without U.S. prodding or a need to play China off on the Soviet Union. Indeed, China had become a much more viable partner in the region and the Soviets could not blame the U.S. for interfering.

Another challenge for the Soviets is the perception throughout the Asia-Pacific region that the Soviets are not really "Asian" but are considered to be European. A dilemma that China does not face. This is a perception that the Soviets also face in Southeast Asia.

ASEAN

The dominant economic force in Southeast Asia is ASEAN. It is also the U.S.'s third largest trading partner and is important in three other areas: "ASEANs position in the new Southeast Asian great-power balance; the ASEAN states' potential for military cooperation; and the future of the Philippine bases".²¹ From a Soviet perspective none of these three areas are in their best interest. ASEAN's economic power is a strength that does not lend itself to need Soviet assistance.

What ASEAN has provided is a power balance that precludes an overt reliance on a super power. The regional military interoperability of ASEAN includes combined training, shared

technology, and common weapon systems. The Soviets realize that ASEAN's independence is tempered with a mild dependence on the U.S. and Australia to provide the military interoperability. And finally, a primary concern is that ASEAN, although not too vocally, strongly supports the U.S. presence in the Philippine's. Each of these areas are not in the strategic interests of the Soviets and in some aspects also contribute to limit ASEAN support for Soviet presence in the region. What really limits Soviet regional support is the fear of Vietnam's expansionism and the unsure future of Kampuchea.

This fear is primarily based on the Soviet-SRV alliance which includes the Soviet forces in SRV and the Soviet support of the Kampuchea invasion by Vietnam.. ASEAN states routinely conduct military exercises, often with U.S. forces, and this serves as a show of regional solidarity against the growing Soviet threat being projected from SRV. It is against this backdrop that:

(t)he Gorbachev idea is the culmination of several different initiatives which portray the Soviet Union as Asian peacemaker...contrasted with America warmongering...portray(ing) the Pacific community idea as an effort to "NATOize Asia, that is, to create a "closed regional grouping...another militaristic bloc.²²

If the Soviet Union can take an active lead as peacemaker in the region and contrast that with U.S. military expansionism it could possibly portray the U.S. as the regional problem and not the Soviet Union. More importantly for the Soviet Union is the need to keep Asian nations out of any alliance that groups the region into a collective security agreement.

The Soviets are employing a diplomacy that will make them an economic partner as a way to project their influence in the region. Gorbachev actively pursues ASEAN nations through a variety of political overtures. He has increased the number of delegation exchanges between Moscow and ASEAN capitals, highlighted by Foreign Minister Shevardnadze's 1987 visits to Jakarta and Bangkok. The Soviets are attempting to give ASEAN nations an "alternative to their close and sometimes fractious trade ties with Japan and the U.S.". ²³ The Soviets have actively criticized the U.S. for its protectionist trade talk and even uses lingering animosity from World War II to spread concern over Japan's economic power.

Indonesia's Nonaligned Movement and economic potential are of great interest to the Soviets and following Shevardnadze's visit the joint communique highlighted the possible economic cooperation between the two nations. ²⁴

ASEAN economic and political opportunities are not very positive for the Soviet Union. Southeast Asia will continue to keep its doors generally closed to the Soviets because of their anticommunism and SRV's Kampuchean occupation. Also, "ASEAN's Western trade orientation and the relative unattractiveness of Soviet export offerings will continue to hamper Moscow's efforts to increase trade significantly.

SOUTH PACIFIC

The South Pacific has actually given the Soviet their best inroads in the Asia-Pacific region, partly because the U.S. has given the Soviets the chance to extend their political and economic power. New Zealand's stand on the issue of a nuclear free area has caused diplomatic friction between the U.S. and New Zealand, and has affected the ANZUS treaty in relation to U.S. support of New Zealand. The New Zealand problem has not been challenged to the full extent possible in that we have maintained our economic relations with them and continue to import significant amounts of farm and dairy products.

If we should decide to really "punish" New Zealand with economic power, such as a trade embargo, the Soviets are anxiously waiting to become a New Zealand trade partner. New Zealand already has an important trade link with the Soviets. They are New Zealand's fifth largest export market and second largest importer of butter. This economic power could be a reason that New Zealand offers the Soviets their only permanent fishing base in the Asia-Pacific region with over 30 fishing ships operating in New Zealand waters.

Given the Soviet history of using such vessels for intelligence gathering this economic tool has allowed the Soviets the ability to monitor U.S. and allied operations in the South Pacific.²⁵

Australia has economic ties with the Soviets through the export of wheat, wool and butter. As Australia's eleventh largest export market, the Soviets rank first in butter purchases, and second in wheat and wool. "Even so, the (Soviets) account for less than 2.5 per cent of Australia's world trade...a marginal influence on Australia's economic well-being."²⁶ Both Australia and New Zealand have made it clear to the Soviets that exploitation in the region is not welcomed by a country that does not share their values. This is easy for two economically developed countries to say, it is harder for underdeveloped South Pacific islands to take such a position.

The 1985 fishing agreement with Kiribati caused concern over Soviet inroads in the South Pacific. The agreement was valued at \$US1.7 million or about 13 per cent of the Kiribati government's total annual income. This agreement permitted the Soviet to fish the Kiribati area with sixteen boats. Although on the surface it did not represent a significant Soviet impact in the area, it did establish them in the South Pacific for the first time. The Soviets were not given landing rights in return of the cost of this agreement and the agreement was not renewed. The nonrenewal was not so much based on the Soviet Union as it was the fact that the U.S. decided to use its economic power and offer a longer agreement in exchange for the right to have U.S. tuna fleets fish the area. The irony of the economics in the region is that the U.S., Australia, and New Zealand have become the regional cards to be played off against Soviet economic advances.

Soviet use of the element of power of economics, well beyond what would seem reasonable, started a situation that is now growing in the region. In January 1987, the Soviets regained fishing rights in the area with a one-year agreement with Vanuatu. This \$US1.5 million agreement gave the Soviets, in addition to fishing rights, access to port facilities for provisions and for Aeroflot landings to exchange fishing crews.

The Soviets continue to use their economics as a way into the South Pacific. Along with fishing, they seek port access as a mean to extend their oceanographic surveys as well as merchant shipping presence. They have "the world's largest oceanographic research programme and it has been active in the South Pacific since 1957...with its hydrographic ships subordinate to the Soviet Navy.²⁷ Some of these ships have accompanied Soviet submarines and the data has potential military use for submarine operations in the region. This adds to the importance of the Soviets gaining port access and fishing rights in the region as a way to allow them to extend their military influence. The ultimate port access achievement that the Soviet's could gain would be a land-based tracking station to monitor Soviet and U.S. missile testing in the region.

CHAPTER VI

CONCLUSION

Throughout the Asia-Pacific region the Soviet Union is displaying an active desire to participate economically with its Asian neighbors. The Soviets have not been a major influence in the region and their only hope, as Gorbachev has articulated, is to be an economic partner. This is primarily in the Soviets interest and a way to diminish U.S. influence in the region. In particular, if the Soviets can be an economic partner it will preclude their exclusion if economics leads to closer regional political ties with the U.S., an event that is not in the Soviet's best interest.

The primary area of Soviet economic influence is in the South Pacific. "A majority of the South Pacific nations face structural economic problems that a single fish deal will not fix...and declining export earnings".²⁸ This could create a vacuum which the Soviets would gladly fill. A fill that may not include just an economic interest.

In closing, we need to remember that there is an economic dimension to strategy and that the Soviets are using this dimension in the Asia-Pacific region. They are thinking about economic policies in strategic terms and have openly articulated their intentions. We need to be mindful of Michael Brown's

argument that "economic policies can serve strategic ends in five ways:"

to enhance regional stability, to achieve leverage over the policies of other countries, to increase the capabilities of allies, to reduce the capabilities of adversaries, and to engage in signaling.²⁹

All the Soviet signals in the region clearly indicate their interest in the economic element of power. Their initial approach throughout the area has been a cautious one but the fact that they are extending "arms" of economic interest should be cause enough for concern. To control the Soviet economic influence will preclude trying to control their political and military influence. These latter influences, when translated into elements of power, are a "Bear" hug that the U.S. and our Asia-Pacific friends and allies would not enjoy.

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